Northern Telecom's PBX operations, domestic and international development, and growth-related expense increases at the Company's software development subsidiaries. The 8.3% growth in 1990 was primarily the result of increased deployment of certain switching software, growth in directory production and advertising costs at telephone subsidiaries, the effects of increased business volumes at the international and mobile service subsidiaries, acquisitions, the aforementioned uncollectibles provision at Mobile Systems, and an increase in interest costs at the Financial Services companies due to higher volume-related debt levels in 1990.

Other Income and Expense

The increase of $143.8 million in other income and expense in 1991 was principally due to an $81.3 million pretax gain from the initial public offering of shares in Telecom (see Note 13 of Notes to Consolidated Financial Statements). The 1991 increase was augmented by the effect of a $64.5 million charge to other expense in 1990 related to the revaluation of the Company's investment in its Financial Services business (see Note 3 of Notes to Consolidated Financial Statements). Income generated from the Company's investment in Telecom, before interest expense, resulted in an additional pretax increase of approximately $30 million in 1991. This increase was fully offset by a $12.0 million pretax write-down of the Company's investment in AT&E Corporation, a developer of wristwatch paging technology that filed for bankruptcy during 1991, lower interest income of approximately $10 million, primarily the result of a reduction in investable cash due to the Telecom acquisition, and lower earnings from the Company's other unconsolidated businesses. In 1990, the decrease in other income and expense was primarily due to the aforementioned charge related to the Financial Services business. These decreases were offset in part by increases associated with the Company's equity interest in cellular partnerships, the Company's equity income and dividend income related to its investment in Telecom, and the year-over-year impact of 1989 costs related to the early retirement of debentures at several of the Company's telephone subsidiaries.

Interest Expense, Excluding Financial Services

Interest expense grew $45.3 million or 6.9% in 1991, primarily due to a $24.4 million increase in interest on debt incurred to finance the Telecom investment, as well as the effect of the reversal in 1990 of interest recorded in connection with estimated access revenue liabilities. In 1990, increases were due to $64.4 million of interest recognized on debt associated with the previously mentioned leveraged ESOPs and $30.4 million of financing costs associated with the Telecom investment.

Income Taxes

The provision for income taxes decreased slightly in 1991 due primarily to lower pretax income at certain telephone subsidiaries. This was substantially offset by increases of approximately $15 million resulting from the effect of higher state income tax rates in Pennsylvania, the effect of higher taxable income resulting from the Telecom investment, and lower investment tax credit amortization at the Network Services companies.

The 1990 provision for income taxes increased $198.6 million, primarily due to higher pretax income, lower investment tax credit amortization at the Network Services companies, and higher deferred income tax expense related to the completion of the amortization of state deferred tax balances at one of the telephone subsidiaries during 1989.

The Company's effective income tax rate was 33.3% in 1991, 33.8% in 1990, and 30.5% in 1989. A reconciliation of the statutory federal income tax rates to these effective rates is provided in Note 10 of Notes to Consolidated Financial Statements. A discussion of the prospective impact of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," is also included in that note.

Foreign Exchange

Since the Company is involved in transactions denominated in foreign currencies, it is exposed to foreign exchange rate risk. The Company periodically enters into foreign exchange contracts to minimize the exposure of these transactions to foreign exchange rate changes (see Note 15 of Notes to Consolidated Financial Statements).

FEDERAL REGULATORY DEVELOPMENTS—INTERCONNECTION AND COLLOCATION

In June 1991, the FCC released a Notice of Proposed Rulemaking (NPRM) that proposes to allow third parties to collocate their equipment in, or very near, telephone company offices to provide special access (private line) services to the public. The FCC's stated purpose for the proposed rulemaking is to encourage greater competition in the provision of interstate special access services. The FCC has tentatively concluded that collocating parties would pay the telephone company an interconnection charge that is lower than the existing tariffed rates for similar non-collocated services. In the same release, the FCC issued a Notice of Inquiry (NOI) asking what policies it should adopt in regard to interstate switched access collocation. Comments and replies to the NPRM and NOI have been filed by the telephone subsidiaries and others. The FCC has not reached a final decision in either part of the proceeding, nor can the Company predict when such a decision will be made.

If the FCC permits increased competition by allowing collocation, the revenues of the telephone subsidiaries would be adversely affected, although some of the lost revenues could be offset by increased demand if, as the telephone subsidiaries requested in their comments, the FCC provides them with greater pricing flexibility. Collocation for the provision of switched access services would result in greater revenue losses to the telephone subsidiaries than would special access collocation. The Company will not be able to estimate the revenue impact of either type of collocation until the conditions of collocation (if any) are determined and announced by the FCC.

OTHER MATTERS

Two of the Network Services companies have been designated as potentially responsible parties by the U.S. Environmental Protection Agency in connection with three Superfund sites. Designation as a potentially responsible party subjects the named company to potential joint liability for remediation and response costs relating to cleanup of the affected sites. Although the amount of any such cleanup costs, and the Company's share thereof, cannot be quantified at this time, management believes that the aggregate amount of its potential liability would not have a material effect on the Company's financial condition or results of operations.

Financial Condition

The Consolidated Statements of Cash Flows present inflows and outflows of cash from three broad categories—operating activities, investing activities, and financing activities.

During 1991, $3.76 billion in cash was generated from operating activities, compared to $3.53 billion in 1990 and $3.89 billion in 1989.

In 1991, cash was invested primarily in technological improvements to and continued expansion of the telephone subsidiaries' networks. The Company invested approximately $2.3 billion in the network in each of 1991, 1990, and 1989. Management estimates that 1992 capital expenditures for network additions will be approximately $2.4 billion.

The Company's investment in Telecom in September 1990 was a significant investing and financing activity. The purchase price of approximately $1.2 billion used approximately $330 million of cash and short-term investments, with the remainder being financed with short- and long-term obligations. In 1991, $395.5 million was generated by the reduction of the Company's investment in Telecom through the initial public offering of Telecom shares. The proceeds from the sale were used primarily for the repayment of obligations associated with the initial investment.

In 1991, the Financial Services companies' lease and notes receivable portfolios generated a cash flow of $57.8 million, while during 1990 and 1989 net cash invested in these portfolios amounted to $349.1 million and $723.2 million, respectively.

In 1991, repayments of debt, net of borrowings, resulted in a cash reduction of approximately $607 million. A portion of this reduction resulted from the repayment of approximately $368 million of the Company's borrowings associated with its investment in Telecom. In addition, the Financial Services companies' net borrowings decreased by approximately $364 million in 1991. During 1991, three of the telephone subsidiaries issued a total of $240.0 million of long-term debentures, and one of the telephone subsidiaries repaid $125.0 million of long-term debentures.

In 1990, net cash flows from borrowings totaled approximately $1.1 billion, of which approximately $677 million related to the Company's investment in Telecom. In addition, one of the telephone subsidiaries issued $175.0 million of long-term debentures, and three of the telephone subsidiaries repaid a total of $32.0 million of long-term debentures. The telephone subsidiaries also increased commercial paper borrowings by $116.9 million in 1990. The remainder of the 1990 borrowings was used principally to finance the leasing companies' asset portfolios.

In 1989, net cash flows from borrowings totaled $444.9 million. Five of the telephone subsidiaries issued a total of $365.0 million of long-term debentures, of which $113.0 million was used to repay higher interest rate debt. The telephone subsidiaries also repaid an additional $118.0 million of other long-term borrowings and capital lease obligations, as well as $108.0 million of short-term borrowings, in 1989. The Financial Services companies incurred a net $280.8 million of intermediate- and long-term debt to finance the expansion of their lease and notes receivable portfolios. Net proceeds from short-term borrowings with maturities of three months or less were used to finance the operations of both the Network Services companies and the unregulated companies.

The Company's debt ratio increased to 56.0% as of December 31, 1991, from 54.7% at December 31, 1990, and 52.4% at December 31, 1989. The debt ratio in 1991 was significantly impacted by the equity reduction associated with adoption of Statement No. 106. Excluding this effect, the 1991 debt ratio would have been 51.5%. The increase in the debt ratio in 1990 related principally to the recording of approximately $861 million in short- and long-term obligations in connection with the Company's investment in Telecom.

Declared dividends per share were $2.52 in 1991, $2.36 in 1990, and $2.20 in 1989, representing increases of 6.8%, 7.3%, and 7.8%, respectively, over the immediately preceding years.

During 1991, the Company purchased approximately 329,000 shares of its common stock at a cost of $15.3 million, while in 1990 and 1989 it purchased 2,088,000 shares at a cost of $103.0 million and 8,206,000 at a cost of $380.3 million, respectively. In 1991, $112.4 million of cash was generated from the sale of 2,381,856 shares of treasury stock to the Company's employee savings plans and Shareowner Dividend Reinvestment and Stock Purchase Plan. During 1990, 535,000 shares of treasury stock were sold to the employee savings plans for a total of $28.0 million, while in 1989 the Company generated $370.5 million from the sale of 8,284,120 shares to the ESOP trusts. The Board of Directors has approved the expenditure of up to $1.0 billion for the purchase of common stock. Through December 31, 1991, common stock at an aggregate cost of $570.7 million had been purchased pursuant to this authorization.

In January 1992, the Company took advantage of lower prevailing interest rates to refinance $200.0 million of long-term debentures at one of the telephone subsidiaries. The Company may refinance certain other long-term debentures of the telephone subsidiaries, if market conditions warrant.

In September 1991, the Company entered into a merger agreement with Metro Mobile providing for the acquisition of Metro Mobile by the Company (see Note 16 of Notes to Consolidated Financial Statements). The merger, which is subject to various conditions and approvals, is expected to be completed by June 30, 1992. Consummation of the merger pursuant to the terms of the agreement will involve the issuance of between 32 million and 36 million shares of the Company's common stock and the assumption of Metro Mobile's outstanding debt in exchange for receipt by the Company of all of the outstanding common stock of Metro Mobile. The transaction is expected to dilute earnings per share by 10% to 12% in 1992. The assumption of the Metro Mobile debt and a reduction in Shareowners' Investment resulting from the planned pooling-of-interests method of accounting is expected to increase the Company's 1992 debt ratio by 3 to 4 percentage points.

Management believes that working capital and available credit facilities are adequate to meet normal operating requirements. While presently foreseeable capital requirements will be financed primarily through internally generated funds, additional long-term debt or equity financing may be needed to fund development activities and maintain the Company's capital structure within management's guidelines.

REPORT OF MANAGEMENT

The management of Bell Atlantic Corporation is responsible for the consolidated financial statements and the information and representations contained in this report. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles and that the information in this report is consistent with those statements. Management is required to include in the financial statements amounts, primarily related to matters not concluded by year-end, that are based on management's best estimates and judgments.

In meeting its responsibility for the financial statements of the Company, management maintains a strong internal control structure, including the appropriate control environment, accounting systems, and control procedures. The internal control structure is designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, that transactions are properly recorded and executed in accordance with management's authorizations, and that the financial records permit the preparation of reliable financial statements. There are, however, inherent limitations that should be recognized in considering the assurances provided by the internal control structure. The concept of reasonable assurance recognizes that the costs of the internal control structure should not exceed the benefits to be derived. The internal control structure is reviewed and evaluated on a regular basis. Compliance is monitored by the internal auditors through an annual plan of internal audits.

The Board of Directors pursues its review and oversight role for the financial statements through an Audit Committee composed of five outside directors. The duties of the Audit Committee include recommending to the Board of Directors the appointment of an independent accounting firm to audit the financial statements of the Company and its subsidiaries. The Audit Committee meets periodically with management and the Board of Directors. It also meets with representatives of the internal and independent auditors and reviews the work of each to ensure that their respective responsibilities are being carried out and to discuss related matters. Both the internal and independent auditors have direct access to the Audit Committee.

The financial statements of the Company have been audited by Coopers & Lybrand, independent accountants, whose report is included on page 14.

Raymond W. Smith
Chairman and Chief Executive Officer

William O. Albertini
Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners of
Bell Atlantic Corporation

We have audited the accompanying consolidated balance sheets of Bell Atlantic Corporation and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bell Atlantic Corporation and subsidiaries as of December 31, 1991 and 1990, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 9 to the consolidated financial statements, the Company changed its method of accounting for postretirement benefits other than pensions in 1991.

Coopers & Lybrand

2400 Eleven Penn Center
Philadelphia, Pennsylvania
February 5, 1992

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31

(Dollars in Millions, Except Per Share Amounts)

	1991	1990	1989
OPERATING REVENUES			
Communications and Related Services			
Network Services			
Local service	$ 4,757.8	$ 4,616.8	$ 4,405.5
Network access	2,922.1	2,970.0	2,778.3
Toll service	1,538.7	1,543.8	1,513.3
Directory advertising, billing services and other	1,599.2	1,578.9	1,480.9
Provision for uncollectibles	(107.6)	(102.4)	(74.0)
Other Communications and Related Services	933.7	918.2	649.3
Financial and Real Estate Services	635.8	772.7	695.3
	12,279.7	12,298.0	11,448.6
OPERATING EXPENSES			
Employee costs, including benefits and taxes	3,936.6	3,761.1	3,739.1
Depreciation and amortization	2,298.7	2,377.2	2,419.9
Other	3,519.0	3,550.1	3,276.8
	9,754.3	9,688.4	9,435.8
OPERATING INCOME	2,525.4	2,609.6	2,012.8
Other Income and Expense, Net	176.0	32.2	75.5
Interest Expense, Excluding Financial Services	705.0	659.7	542.8
INCOME BEFORE PROVISION FOR INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,996.4	1,982.1	1,545.5
Provision for Income Taxes	664.8	669.6	471.0
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,331.6	1,312.5	1,074.5
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE			
Transition Effect of Change in Accounting for Postretirement Benefits Other Than Pensions, Net of Tax	(1,554.3)	—	—
NET INCOME (LOSS)	$ (222.7)	$ 1,312.5	$ 1,074.5
PER COMMON SHARE			
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	$ 3.41	$ 3.38	$ 2.71
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE			
Transition Effect of Change in Accounting for Postretirement Benefits Other Than Pensions, Net of Tax	(3.94)	—	—
NET INCOME (LOSS)	$ (.53)	$ 3.38	$ 2.71
Weighted average number of common shares and equivalent shares outstanding (in millions)	394.8	393.6	396.0

See Notes to Consolidated Financial Statements.

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Millions, Except Per Share Amounts)

	December 31, 1991	December 31, 1990
Assets		
CURRENT ASSETS		
Cash and cash equivalents	$ 130.6	$ 94.7
Short-term investments	114.7	15.0
Accounts receivable, net of allowances of $162.5 and $123.9	2,030.2	2,080.2
Finance lease and notes receivable, net	557.4	605.0
Inventories	293.3	357.9
Prepaid expenses	122.5	110.1
Deferred charges and other	600.7	564.7
	3,849.4	3,827.6
PLANT, PROPERTY AND EQUIPMENT	31,847.9	30,783.5
Less accumulated depreciation	11,886.1	11,336.4
	19,961.8	19,447.1
EQUIPMENT UNDER OPERATING LEASES, NET	438.6	723.0
FINANCE LEASE AND NOTES RECEIVABLE, NET	1,944.3	2,005.1
INVESTMENTS IN AFFILIATES	1,005.7	1,353.4
DEFERRED CHARGES AND OTHER	681.8	642.3
TOTAL ASSETS	$27,881.6	$27,998.5
Liabilities and Shareowners' Investment		
CURRENT LIABILITIES		
Debt maturing within one year	$ 2,014.3	$ 2,597.0
Accounts payable	1,876.9	1,955.0
Accrued taxes	222.6	118.5
Advance billings and customer deposits	379.8	410.6
Accrued vacation pay	235.9	244.3
Dividend payable	249.5	232.0
Other	196.2	191.6
	5,175.2	5,749.0
LONG-TERM DEBT	7,959.5	8,171.1
DEFERRED CREDITS		
Deferred income taxes	3,060.0	4,017.1
Employee benefit obligations	**2,985.1**	**216.0**
Unamortized investment tax credits	**593.4**	**662.3**
Other	277.1	253.0
	6,915.6	5,148.4
COMMITMENTS AND CONTINGENCIES (Notes 6 and 12)		
SHAREOWNERS' INVESTMENT		
Preferred and Preference stock ($1 par value; none issued)	—	—
Common stock ($1 par value; 399,492,640 shares issued)	399.5	399.5
Contributed capital	5,336.6	5,347.4
Reinvested earnings	3,088.7	4,290.7
Foreign currency translation adjustment	(100.5)	(29.8)
	8,724.3	10,007.8
Less common stock in treasury, at cost	171.6	316.7
Less deferred compensation—employee stock ownership plans	721.4	761.1
	7,831.3	8,930.0
TOTAL LIABILITIES AND SHAREOWNERS' INVESTMENT	$27,881.6	$27,998.5

See Notes to Consolidated Financial Statements.

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31

(Dollars in Millions)

	1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (222.7)	$ 1,312.5	$ 1,074.5
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,298.7	2,377.2	2,419.9
Cumulative effect of change in accounting principle	1,554.3	—	—
Other items, net	202.9	185.7	152.6
Changes in certain assets and liabilities net of effects from acquisition/disposition of businesses:			
Accounts receivable	32.7	(151.3)	(165.4)
Inventories	(15.0)	(105.6)	(66.8)
Deferred charges and other assets	(86.6)	9.1	(28.9)
Accounts payable and accrued taxes	38.4	(97.7)	476.2
Deferred income taxes, net	20.2	92.5	165.2
Unamortized investment tax credits	(68.0)	(71.5)	(77.1)
Other liabilities	0.7	(18.8)	(58.3)
Net cash provided by operating activities	3,755.6	3,532.1	3,891.9
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of short-term investments	(201.8)	(872.5)	(711.0)
Proceeds from sale of short-term investments	112.1	1,140.5	696.5
Additions to plant, property and equipment	(2,459.0)	(2,521.9)	(2,584.3)
Additions to equipment under operating leases	(86.3)	(224.9)	(423.9)
Proceeds from sale of equipment under operating leases	107.6	122.2	85.3
Additions to finance lease and notes receivable	(1,373.1)	(1,224.0)	(873.4)
Proceeds from sales related to finance lease and notes receivable	317.6	199.1	11.0
Principal payments received under finance lease and notes receivable	1,092.0	778.5	477.8
Acquisition of businesses, less cash acquired	—	(63.9)	(2.2)
Investment in Telecom Corporation of New Zealand Limited	(189.7)	(1,043.4)	—
Proceeds from sale of ownership interest in Telecom Corporation of New Zealand Limited	395.5	—	—
Investment in joint venture	(10.9)	—	—
Proceeds from disposition of businesses	4.2	—	—
Other, net	57.5	(25.4)	(30.1)
Net cash used in investing activities	(2,234.3)	(3,735.7)	(3,354.3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	664.4	1,269.4	1,015.2
Principal repayments of borrowings and capital lease obligations	(785.8)	(616.2)	(715.2)
Net change in short-term borrowings with original maturities of three months or less	(485.2)	467.7	144.9
Dividends paid	(976.2)	(911.8)	(856.4)
Purchase of common stock for treasury	(15.3)	(103.0)	(380.3)
Sale of treasury stock	112.7	28.0	370.5
Net cash (used in) provided by financing activities	(1,485.4)	134.1	(421.3)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35.9	(69.5)	116.3
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	94.7	164.2	47.9
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 130.6	$ 94.7	$ 164.2

See Notes to Consolidated Financial Statements.

BELL ATLANTIC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Bell Atlantic Corporation and its majority-owned subsidiaries (the Company). Investments in less-than-majority-owned businesses, including the Company's investments in Telecom Corporation of New Zealand Limited (Telecom), a one-seventh interest in Bell Communications Research, Inc., several cellular mobile communications and real estate partnerships, and several other domestic and international joint ventures, are accounted for principally using the equity method. The portion of the Company's investment in Telecom which is expected to be sold within three years from the date of its acquisition is accounted for using the cost method. All significant intercompany accounts and transactions have been eliminated.

Network Services consists of the Company's seven telephone subsidiaries and two subsidiaries that provide centralized management, financing, and technical services. Financial Services consists of the Company's lease financing subsidiaries.

The telephone subsidiaries are included in the consolidated financial statements using generally accepted accounting principles applicable to regulated entities.

Earnings Per Common Share

Earnings per common share is based on the weighted average number of shares and equivalent shares outstanding during the year.

Effective in 1990, for purposes of computing earnings per common share, net income is increased by the tax benefit related to dividends paid on shares held by the Company's employee stock ownership plans.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

Several of the telephone subsidiaries make certain payments by draft and record such drafts as accounts payable until such time as the banks have presented them for payment.

Short-term Investments

Short-term investments consist of investments that mature 91 days to 12 months from the date of purchase. Short-term investments are stated at cost, which approximates market value.

Inventories

New and reusable materials of the telephone subsidiaries are carried in inventory, principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value. Inventories of other subsidiaries are carried at the lower of cost (determined principally on either an average or first-in, first-out basis) or market.

Plant and Depreciation

The telephone subsidiaries' provision for depreciation is based principally on the remaining life method of depreciation and straight-line composite rates. This method provides for the recovery of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining service lives authorized by regulatory commissions. Depreciation expense also includes amortization of certain classes of telephone plant (and certain identified depreciation reserve deficiencies) over periods authorized by regulatory commissions.

When depreciable plant of the telephone subsidiaries is replaced or retired, the amounts at which such plant has been carried in plant, property and equipment are removed from the respective accounts and charged to accumulated depreciation, and any gains or losses on disposition are amortized over the remaining service lives of the remaining net investment in telephone plant.

Plant, property and equipment of other subsidiaries is depreciated over the estimated useful lives on a straight-line basis. When the depreciable assets of these subsidiaries are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gains or losses on disposition are recognized in income.

Maintenance and Repairs

The cost of maintenance and repairs of plant, including the cost of replacing minor items not constituting substantial betterments, is charged to operating expense.

Allowance for Funds Used During Construction

Regulatory commissions allow the telephone subsidiaries to record an allowance for funds used during construction, which includes both interest and equity return components, as a cost of plant and as an item of other income. Such income is not recovered in cash currently but will be recoverable over the service life of the plant through higher depreciation expense recognized for regulatory purposes.

Equipment Under Operating Leases

Equipment under operating leases is depreciated to estimated residual value principally by using a sum-of-the-years-digits method.

Cost in Excess of Net Assets Acquired

The excess of the acquisition cost over the fair value of net assets of businesses acquired, which is included in noncurrent deferred charges and other assets, is amortized by the straight-line method over periods not exceeding 40 years.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at current exchange rates. Revenues and expenses are translated using average rates during the year. Resulting cumulative translation adjustments are recorded as a separate component of Shareowners' Investment. Exchange gains and losses on certain balances of a long-term investment nature between consolidated subsidiaries are also recorded in the separate component of Shareowners' Investment. Other transaction gains and losses that arise from exchange rate changes on transactions denominated in a currency other than the local currency are included in results of operations as incurred.

To mitigate the effect of unfavorable movements in foreign exchange rates, the Company periodically enters into forward exchange contracts and options to hedge exposed balances. Realized and unrealized gains and losses on contracts to hedge certain balances of a long-term investment nature are included in Shareowners' Investment. Realized and unrealized gains and losses on contracts to hedge certain balances of a temporary nature are included in results of operations.

Lessor Revenue Recognition

Certain unregulated subsidiaries act as lessors in direct financing, leveraged, and operating lease transactions.

Direct financing lease receivables consist of the net minimum lease payments receivable under the leases plus the estimated residual value of the leased property less the unearned income. Unearned income represents the excess of the net minimum lease payments receivable plus the estimated residual value over the cost of the equipment leased. Unearned income is amortized to income over the term of the lease by methods that provide an approximately level rate of return on the net investment in the lease.

Leveraged lease receivables consist of the aggregate minimum rentals receivable under the leases, net of related nonrecourse debt, plus the estimated residual value of the leased property less unearned income. The unearned income represents the estimated pretax lease income and unamortized investment tax credits. Accumulated deferred income taxes arising from leveraged leases are deducted from leveraged lease receivables to determine the net investment in leveraged leases. Unearned income is recognized at a rate that will distribute income to years in which the net investment in the leveraged lease is positive.

Operating lease income is recognized in equal monthly amounts over the term of the lease.

Employee Benefits

Pension Plans

Substantially all employees of the Company are covered under noncontributory retirement plans. Amounts contributed to the Company's pension plans are actuarially determined, principally under the aggregate cost method, and are subject to applicable federal income tax regulations.

Postretirement Benefits Other Than Pensions

Substantially all employees of the Company are covered under postretirement health and life insurance benefit plans.

Effective January 1, 1991, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

The Company makes contributions to a retiree health care trust for associate employees. Contributions to the trust are determined principally under the aggregate cost actuarial method and are limited to amounts permitted under Internal Revenue Service rules for determining tax-deductible contributions.

The Company annually funds an amount for life insurance benefits that is determined using the aggregate cost actuarial method.

Savings Plans and Employee Stock Ownership Plans

The Company maintains savings plans which cover substantially all of its employees. A substantial portion of the Company's matching contribution is provided through employee stock ownership plans (ESOPs). The Company recognizes expense based on accounting rules applicable to companies with ESOP trusts that held securities prior to December 15, 1989. Under this method, the Company recognizes 80 percent of the cumulative expense that would have been recognized under the shares allocated method.

The obligations of the ESOP trusts, which are guaranteed by the Company, are recorded as long-term debt and the offsetting deferred compensation is classified as a reduction to Shareowners' Investment. As the ESOP trusts make principal payments, the Company reduces the long-term debt balance. The deferred compensation balance is reduced by the amount of employee compensation earned as the ESOP shares are allocated to participants.

Income Taxes

Bell Atlantic Corporation and its domestic subsidiaries file a consolidated federal income tax return.

Deferred income taxes are generally provided to reflect the effect of timing differences on the recognition of revenue and expense for financial and income tax reporting purposes. Certain of the telephone subsidiaries do not fully provide deferred income taxes on those timing differences where regulators permit only income taxes actually paid to be recognized currently as a cost of service.

The Tax Reform Act of 1986 repealed the investment tax credit (ITC) as of January 1, 1986, subject to certain transitional rules. ITCs of the telephone subsidiaries were deferred and are amortized to income over the estimated service lives of the related assets.

RECLASSIFICATIONS

Certain reclassifications of prior years' data have been made to conform to 1991 classifications.

2. Debt

LONG-TERM

Long-term debt consists of the following at December 31:

	Interest Rates	Maturities	1991	1990
			(Dollars in Millions)	
Communications and Related Services				
Telephone subsidiaries' debentures:	3¼%— 7½%	1993—2013	$1,612.0	$1,612.0
	7¾%— 8¾%	2006—2031	2,310.0	2,170.0
	8⅞%—10¼%	1992—2026	1,666.0	1,691.0
			5,588.0	5,473.0
Unamortized discount and premium, net			(116.9)	(120.0)
Capital lease obligations—average rate 10.6% and 10.4%			138.9	120.3
Other			88.1	103.1
			5,698.1	5,576.4
Financial and Real Estate Services				
Notes payable	4.50%—13.20%	1992—2001	1,797.2	2,119.7
Mortgage and installment notes	6.50%—13.00%	1992—2011	103.7	129.1
Nonrecourse notes	8.50%—11.25%	1992—1998	8.3	10.9
Capital lease obligations—average rate 11.1% and 11.2%			41.1	58.3
			1,950.3	2,318.0
Corporate				
Notes payable	8.625%—8.70%	1993	250.0	250.0
Medium-term notes	4.74%—8.00%	1992—1993	222.0	60.0
Unamortized discount			(1.1)	(1.3)
			470.9	308.7
Employee Stock Ownership Plan Loans				
Senior Notes	8.25%	2000	733.2	772.3
Total long-term debt, including current maturities			8,852.5	8,975.4
Less maturing within one year			893.0	804.3
Total long-term debt			$7,959.5	$8,171.1

Maturities of long-term debt outstanding at December 31, 1991, excluding capital lease obligations, are as follows:

Years	Communications and Related Services	Financial and Real Estate Services	Corporate	Employee Stock Ownership Plan Loans	Total
		(Dollars in Millions)			
1992	$ 105.1	$ 545.4	$162.0	$ 46.0	$ 858.5
1993	101.4	417.1	310.0	53.5	882.0
1994	5.1	567.0	—	62.4	634.5
1995	90.1	226.2	—	73.5	389.8
1996	35.1	78.6	—	85.6	199.3
Thereafter	5,339.3	74.9	—	412.2	5,826.4
Total	$5,676.1	$1,909.2	$472.0	$733.2	$8,790.5

Telephone subsidiaries' debentures outstanding at December 31, 1991 include $4,708.0 million that are callable. The call prices range from 107.7% to 100.0% of face value, depending upon the remaining term to maturity of the issue. In addition, the telephone subsidiaries' debentures include $640.0 million that will become redeemable for a limited period at the option of the holders. The redemption prices will be 100.0% of face value plus accrued interest.

Installment and nonrecourse notes and notes payable in the amount of $15.5 million at December 31, 1991 were collateralized by finance lease receivables and equipment.

Mortgage notes are collateralized by land and buildings held for investment purposes.

Corporate debt was issued to provide a portion of the financing for the Company's investment in Telecom.

See Note 9 for information on the Employee Stock Ownership Plan Loans.

MATURING WITHIN ONE YEAR

Debt maturing within one year consists of the following at December 31:

	1991	1990	1989
		(Dollars in Millions)	
Notes payable:			
Bank loans	$ 304.1	$ 506.8	$ 525.9
Commercial paper	817.2	1,098.7	613.1
Other notes	—	187.2	—
Long-term debt maturing within one year	893.0	804.3	592.2
Total	$2,014.3	$2,597.0	$1,731.2
Average amounts of notes payable outstanding during the year*	$1,821.9	$1,705.0	$1,020.7
Weighted average interest rates for notes payable outstanding during the year**	6.3%	8.5%	9.4%
Maximum amounts of notes payable at any month-end during the year	$2,292.3	$2,355.6	$1,225.4

* Amounts represent average daily face amounts of notes.

** Weighted average interest rates are computed by dividing average daily face amounts of notes into the aggregate related interest expense and include both domestic and international borrowings.

Construction of telephone plant and the operations of the Company's financial services and real estate subsidiaries are partially financed, pending long-term financing, through bank loans and the issuance of commercial paper and commercial notes, payable within 12 months.

At December 31, 1991, the Company had in excess of $2,200 million of unused bank lines of credit. The availability of these lines, for which there are no formal compensating balances or commitment fee agreements, is at the discretion of each bank.

3. Accounting for Restructuring and Other Charges

In 1991, the Company offered a retirement incentive program to eligible management employees electing early retirement from the Network Services companies and certain other subsidiaries. Under this program, approximately 3,200 management employees retired from the Company. As a result, income before the cumulative effect of the change in accounting principle for 1991 was reduced by $42.2 million ($.11 per share) for special termination benefits and related restructuring costs. These costs are included as operating expenses in the Consolidated Statement of Income.

During 1990, as part of the Company's ongoing reevaluation of business opportunities, management decided to refocus its capital into certain strategic businesses, including network services, wireless communications, and business systems. This decision resulted in a plan to reduce the emphasis on growth in the Financial Services group. In connection with this change in emphasis, the Company revalued its investment in its Financial Services business, resulting in a charge of $64.5 million, which is included in other income and expense in the Consolidated Statement of Income. This charge, net of related tax benefits, reduced net income for 1990 by $60.0 million ($.15 per share).

Net income for 1989 was reduced by $232.7 million ($.59 per share) as a result of costs associated with (i) special severance and enhanced early retirement programs for management employees, (ii) the consolidation of certain Network Services facilities, and (iii) the write-down of certain assets, principally the excess of the acquisition cost over the fair value of the net assets of certain acquired businesses and the spare parts inventories of the computer maintenance business. These costs are included as operating expenses in the Consolidated Statement of Income. In addition, costs associated with the early retirement of debentures of the telephone subsidiaries reduced net income for 1989 by $12.1 million ($.03 per share). These costs are included as a component of other income and expense in the Consolidated Statement of Income.

In addition, as a result of labor negotiations completed in 1989, the Company established a retiree health care trust for associate Network Services employees. In connection with the establishment of the trust, the Company changed its method of accounting for postretirement health care benefits for these employees from a pay-as-you-go basis to an actuarially determined accrual basis, effective January 1, 1989. This change in accounting reduced net income for 1989 by $75.7 million ($.19 per share).

4. Plant, Property and Equipment

Plant, property and equipment, which is stated at cost, is summarized as follows at December 31:

	1991			1990
	Communications and Related Services	Financial and Real Estate Services	Total	Total
	(Dollars in Millions)			
Land	$ 137.0	$ 95.1	$ 232.1	$ 243.1
Buildings	2,153.2	437.2	2,590.4	2,414.7
Central office equipment	11,147.8	—	11,147.8	10,857.0
Cable, wiring, and conduit	13,043.5	—	13,043.5	12,641.8
Other equipment	3,749.2	20.4	3,769.6	3,610.9
Other	438.8	120.0	558.8	427.3
Construction-in-progress	440.8	64.9	505.7	588.7
	31,110.3	737.6	31,847.9	30,783.5
Accumulated depreciation	(11,817.0)	(69.1)	(11,886.1)	(11,336.4)
Total	$ 19,293.3	$668.5	$ 19,961.8	$ 19,447.1

5. Leasing Arrangements as Lessor

Certain of the Company's subsidiaries provide a variety of leasing services, predominantly related to computer, medical, and industrial equipment and real estate properties. The leases are classified as capital or operating leases in accordance with the provisions of Statement of Financial Accounting Standards No. 13, "Accounting for Leases."

Finance lease and notes receivable, net, consist of the following components at December 31:

	1991			1990		
	Leveraged Leases	Direct Financing Leases	Total	Leveraged Leases	Direct Financing Leases	Total
	(Dollars in Millions)					
Minimum lease payments receivable	$ 893.6	$1,161.3	$2,054.9	$ 782.1	$1,425.0	$2,207.1
Estimated residual value	561.3	206.9	768.2	468.8	186.6	655.4
Unearned income	(575.5)	(329.6)	(905.1)	(496.7)	(359.3)	(856.0)
	$ 879.4	$1,038.6	1,918.0	$ 754.2	$1,252.3	2,006.5
Allowance for doubtful accounts			(46.3)			(37.0)
Finance lease receivables, net			1,871.7			1,969.5
Notes receivable			630.0			640.6
Finance lease and notes receivable, net			$2,501.7			$2,610.1

Minimum lease payments receivable for the leveraged leases are shown net of principal and interest on the associated nonrecourse debt. Accumulated deferred taxes arising from leveraged leases, which are included in deferred income taxes, amounted to $684.3 million and $602.3 million at December 31, 1991 and 1990, respectively.

Notes receivable consist of amounts due to the financial services subsidiaries in connection with various financing and lending arrangements. The notes bear interest at rates ranging from 5.8% to 16.7% and mature in varying amounts between the years 1992 and 2002.

Equipment under operating leases is net of accumulated depreciation of $944.5 million and $814.2 million at December 31, 1991 and 1990, respectively.

Plant, property and equipment at December 31, 1991 and 1990 includes real estate property under operating leases, or held for lease, of $651.1 million and $642.0 million, less accumulated depreciation of $57.7 million and $34.5 million, respectively.

Future minimum lease payments to be received from noncancelable leases, net of nonrecourse loan payments related to leveraged leases, for the periods shown are as follows at December 31, 1991:

Years	Capital Leases	Operating Leases
	(Dollars in Millions)	
1992	$ 359.1	$248.4
1993	271.1	136.0
1994	183.9	91.8
1995	142.9	70.1
1996	96.3	53.5
Thereafter	1,001.6	298.9
Total	$2,054.9	$898.7

6. Leasing Arrangements as Lessee

The Company has entered into both capital and operating leases for facilities and equipment used in operations. In 1991, 1990, and 1989, the Company incurred initial capital lease obligations of $35.1 million, $28.4 million, and $26.1 million, respectively.

Total rent expense amounted to $292.3 million in 1991, $297.4 million in 1990, and $289.3 million in 1989.

At December 31, 1991, the aggregate minimum rental commitments under noncancelable leases for the periods shown are as follows:

Years	Capital Leases	Operating Leases
	(Dollars in Millions)	
1992	$ 53.9	$112.8
1993	49.0	95.3
1994	27.1	69.2
1995	24.7	55.8
1996	20.8	45.0
Thereafter	120.2	124.6
Total	295.7	$502.7
Less imputed interest and executory costs	115.7	
Present value of net minimum lease payments	180.0	
Less current installments	34.5	
Long-term obligation at December 31, 1991	$145.5	

As of December 31, 1991, the total minimum sublease rentals to be received in the future under noncancelable capital and operating subleases were $25.2 million and $10.6 million, respectively.

7. Shareowners' Investment

	Common Stock Shares (in thousands)	Common Stock Amount	Contributed Capital	Reinvested Earnings	Foreign Currency Translation Adjustment	Treasury Stock Shares (in thousands)	Treasury Stock Amount	Deferred Compensation —ESOPs
	(Dollars in Millions, Except Per Share Amounts)							
Balance, December 31, 1988	399,493	$399.5	$5,269.3	$3,688.8	$ —	5,462	$ 180.9	$ —
Net income				1,074.5				
Dividends declared on common stock ($2.20 per share)				(872.3)				
Purchase of common stock for treasury						8,206	380.3	
ESOP obligations								790.0
Sale of treasury shares to ESOPs			76.6			(8,284)	(293.9)	
Treasury shares distributed in connection with stock incentive plans						(346)	(12.8)	
Other				(1.3)				
Balance, December 31, 1989	399,493	399.5	5,345.9	3,889.7	—	5,038	254.5	790.0
Net income				1,312.5				
Dividends declared on common stock ($2.36 per share)				(926.8)				
Purchase of common stock for treasury						2,088	103.0	
Sales of treasury shares to employee savings plans			2.8			(535)	(25.2)	
Treasury shares distributed in connection with stock incentive plans						(289)	(15.6)	
Foreign currency translation adjustment, net of income tax benefit of $3.4 million					(29.8)			
Reduction of ESOP obligations								(28.9)
Tax benefit of dividends paid to ESOPs				18.0				
Other			(1.3)	(2.7)				
Balance, December 31, 1990	399,493	399.5	5,347.4	4,290.7	(29.8)	6,302	316.7	761.1
Loss				(222.7)				
Dividends declared on common stock ($2.52 per share)				(993.7)				
Purchase of common stock for treasury						329	15.3	
Sales and distributions of treasury shares to employee savings plans and shareowner dividend reinvestment and stock purchase plan			(10.3)			(2,949)	(148.9)	
Treasury shares distributed in connection with stock incentive plans			.3			(240)	(11.5)	
Foreign currency translation adjustment, net of income tax benefit of $4.7 million					(70.7)			
Reduction of ESOP obligations								(39.7)
Tax benefit of dividends paid to ESOPs				14.4				
Other			(.8)					
Balance, December 31, 1991	399,493	$399.5	$5,336.6	$3,088.7	$(100.5)	3,442	$ 171.6	$721.4

Bell Atlantic Corporation is authorized to issue up to 12.5 million shares each of Preferred and Preference stock and 1.5 billion shares of common stock.

During 1990, the Company began to classify its cumulative foreign currency translation adjustment as a component of Shareowners' Investment. At December 31, 1989, the amount was a credit of $4.7 million and was carried in Deferred Credits-Other in the Company's Consolidated Balance Sheet.

Under a Shareholder Rights Plan adopted in 1989, one right is attached to each outstanding share of common stock. When exercisable, each right entitles the holder to purchase one one-hundredth of a share of Series A Junior Participating Preference Stock at an exercise price of $250, subject to adjustment. The rights become exercisable and will trade separately from the common stock 10 days after a person or group acquires, or announces a tender offer for, 15% or more of the Company's outstanding common stock. In the event any person acquires 15% or more of the Company's common stock (except pursuant to certain transactions previously approved by the Board of Directors), each holder of a right other than such person will have the right to receive, upon payment of the exercise price, common stock of the Company with a market value of two times the exercise price. In the event that the Company is acquired in a merger or other business combination, or certain events occur, each right entitles the holder to purchase shares of common stock of the surviving company having a market value of twice the exercise price of the right. Until the rights become exercisable, they may be redeemed by the Company at a price of one cent per right. The rights expire on April 10, 1999.

8. Stock Incentive Plans

Under the Bell Atlantic Stock Incentive Plan (the Plan), a total of 14,000,000 shares of common stock may be distributed upon the exercise of incentive stock options and for payment of performance share awards. Key employees may be granted incentive stock options to purchase shares of Bell Atlantic Corporation's common stock at prices not less than the fair market value of the stock at the date of the grant. Stock appreciation rights (SARs) may also be granted in tandem with the incentive stock options. Upon exercise of the SARs, the related incentive stock options are canceled. Incentive stock options and SARs are exercisable at dates determined by the terms of the grant, but not later than 10 years from the date of the grant.

The Plan also provides for the granting of performance share awards to certain key employees. Payment of performance share awards is based on the achievement of financial and other objectives set by the Board of Directors, typically over a three- to five-year period, and made in stock, unless otherwise determined by the Board. The Plan also allows payment of the performance share awards to be deferred until later periods.

A subsidiary of Bell Atlantic Corporation also maintains a separate performance share award plan that provides for awards of Bell Atlantic Corporation's common stock, distributable at various times, based on the subsidiary's performance and other factors.

Incentive stock options, SARs and performance share awards outstanding under both the Bell Atlantic and the subsidiary's plans are as follows:

	Incentive Stock Options	SARs	Weighted Average Price of Incentive Stock Options	Performance Share Awards
Outstanding, December 31, 1988	635,256	214,572	$33.30	1,266,982
Granted	246,940	58,716	$36.81	559,234
Exercised/Distributed	(114,578)	(183,400)	$30.50	(326,000)
Canceled	(196,120)	(28,340)	$33.33	(57,516)
Outstanding, December 31, 1989	571,498	61,548	$35.36	1,442,700
Granted	364,297	—	$48.87	371,284
Exercised/Distributed	(155,114)	(3,180)	$35.45	(251,795)
Canceled	(3,180)	(17,256)	$35.13	(268,928)
Outstanding, December 31, 1990	777,501	41,112	$41.68	1,293,261
Granted	1,085,462	33,034	$53.35	585,049
Exercised/Distributed	(58,994)	—	$35.50	(286,061)
Canceled	(99,264)	(35,628)	$47.09	(163,368)
Outstanding, December 31, 1991	1,704,705	38,518	$49.01	1,428,881

At December 31, 1991, incentive stock options to purchase 674,485 shares of common stock were exercisable under the Plan. A total of 9,587,775 and 4,106,971 shares of common stock were available for the granting of incentive stock options and performance share awards under the Plan at December 31, 1991 and 1990, respectively. Compensation expense related to the stock incentive plans described above amounted to $20.6 million in 1991, $18.9 million in 1990, and $22.7 million in 1989. At December 31, 1991, employees had elected to defer receipt of 189,854 performance shares awarded under the Plan.

9. Employee Benefits

Pension Plans

Substantially all of the Company's management and associate employees are covered under noncontributory pension and death benefit plans. The pension benefit formula is based on a flat dollar amount per year of service according to job classification under the associate plan and a stated percentage of adjusted career average income under the plans for management employees. The Company's objective in funding the plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, U.S. Government and corporate debt securities, and real estate.

Pension cost is composed of the following:

	Years Ended December 31,		
	1991	1990	1989
		(Dollars in Millions)	
Benefits earned during the year	$ 184.5	$ 190.7	$ 180.4
Interest on projected benefit obligation	735.1	692.3	648.7
Actual return on plan assets	(2,166.9)	385.1	(1,916.5)
Deferral of difference between actual and assumed return on plan assets	1,433.3	(1,105.4)	1,244.0
Net amortization	(30.3)	(11.4)	(16.0)
Special termination benefits	10.1	—	—
Pension cost	$ 165.8	$ 151.3	$ 140.6
Pension cost as a percentage of salaries and wages	5.6%	5.2%	4.6%

During 1991, the Company offered a retirement incentive program to eligible management employees electing early retirement from the Network Services companies and certain other subsidiaries. The increase in pension cost from 1990 to 1991 is primarily due to the special termination benefits attributable to employees retiring in 1991 under this program. The remaining increase in 1991 and the increase in pension cost from 1989 to 1990 are the net result of changes in plan provisions, actuarial assumptions, and demographic and investment experience.

The following table sets forth the plans' funded status and amounts recognized in the Company's Consolidated Balance Sheets as of December 31:

	1991	1990
	(Dollars in Millions)	
Actuarial present value of benefit obligations:*		
Benefits based on service to date and present salary levels		
Vested	$ 7,192.6	$ 6,324.5
Nonvested	1,740.5	1,732.2
Accumulated benefit obligation	8,933.1	8,056.7
Additional benefits related to estimated future salary levels	1,238.9	1,252.4
Projected benefit obligation	10,172.0	9,309.1
Fair value of plan assets	11,769.6	10,521.7
Plan assets in excess of projected benefit obligation	(1,597.6)	(1,212.6)
Unrecognized net gain	1,925.6	1,278.8
Unamortized prior service cost	(201.7)	(120.2)
Unamortized net transition asset	250.6	270.0
Additional minimum liability for nonqualified plans	43.2	—
Accrued pension obligation	$ 420.1	$ 216.0

The assumed discount rate used to measure the projected benefit obligation was 7.75% at December 31, 1991 and 8.0% at December 31, 1990. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991 and 1990. The expected long-term rate of return on plan assets was 7.5% for 1991, 1990, and 1989. The vested benefit obligation represents the actuarial present value of vested benefits to which employees are currently entitled based on the employees' expected dates of separation or retirement.

The Company has in the past entered into labor negotiations with the unions representing certain employees and expects to do so in the future. Pension benefits have been included in these negotiations and improvements in benefits have been made from time to time. Additionally, the Company has amended the benefit formula under pension plans maintained for its management employees. Expectations with respect to future amendments to the Company's pension plans have been reflected in determining the Company's pension cost under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (Statement No. 87). Since the projected benefit obligation, as calculated under Statement No. 87, relies on assumptions concerning future events, a comparison of the projected benefit obligation to the fair value of plan assets at December 31, 1991 and 1990 may not be meaningful.

Postretirement Benefits Other Than Pensions

Effective January 1, 1991, the Company has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Company's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health benefits for management retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the aggregate cost actuarial method. The cost of postretirement life insurance benefits was also recognized as determined under the aggregate cost actuarial method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Company elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets and recognized accrued postretirement benefit cost (transition obligation), in the amount of $1,554.3 million, net of a deferred income tax benefit of $945.6 million. On December 26, 1991, the Federal Communications Commission (FCC) released an order permitting adoption of Statement No. 106 on or before January 1, 1993. The FCC order permits amortization of the transition obligation over the average remaining service period of active employees for interstate regulatory accounting purposes. Pursuant to Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of

Certain Types of Regulation" (Statement No. 71), a regulatory asset associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment.

Substantially all of the Company's management and associate employees are covered under postretirement health and life insurance benefit plans. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical, and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on annual basic pay at retirement.

The Company funds for postretirement health benefits for associate employees and postretirement life insurance benefits for management and associate employees. The Company's objective in funding these plans is to accumulate funds at a relatively stable rate over participants' working lives so that benefits are fully funded at retirement. Plan assets consist principally of investments in domestic and nondomestic corporate equity securities, and U.S. Government and corporate debt securities.

Postretirement benefit cost is composed of the following for the year ended December 31, 1991:

	Health	Life Insurance	Total
	(Dollars in Millions)		
Benefits earned during the year	$ 50.5	$ 7.2	$ 57.7
Interest on accumulated postretirement benefit obligation	221.5	30.5	252.0
Actual return on plan assets	(64.6)	(99.8)	(164.4)
Net amortization and deferral	45.5	68.1	113.6
Postretirement benefit cost	$252.9	$ 6.0	$ 258.9

The following table sets forth the plans' funded status and the amount recognized in the Company's Consolidated Balance Sheet as of December 31, 1991:

	Health	Life Insurance	Total
	(Dollars in Millions)		
Accumulated postretirement benefit obligation attributable to:			
Retirees	$1,814.2	$208.5	$2,022.7
Fully eligible plan participants	297.3	53.6	350.9
Other active plan participants	983.8	169.7	1,153.5
Total accumulated postretirement benefit obligation	3,095.3	431.8	3,527.1
Fair value of plan assets	330.6	514.6	845.2
Accumulated postretirement benefit obligation in excess of (less than) plan assets	2,764.7	(82.8)	2,681.9
Unrecognized net gain (loss)	(153.9)	40.6	(113.3)
Unamortized prior service cost	(3.6)	—	(3.6)
Accrued (prepaid) postretirement benefit obligation	$2,607.2	$(42.2)	$2,565.0

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.75% at December 31, 1991 and 8.0% at January 1, 1991. The assumed rate of future increases in compensation levels was 5.25% at December 31, 1991. The expected long-term rate of return on plan assets was 7.5% for 1991. The medical cost trend rate in 1991 was approximately 15.0%, grading down to an ultimate rate in 2003 of approximately 5.0%. The dental cost trend rate in 1991 and thereafter is approximately 4.0%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 1991 net periodic postretirement benefit cost by $44.5 million and would have increased the accumulated postretirement benefit obligation as of December 31, 1991 by $400.8 million.

Certain postretirement benefits other than pensions have been included in the labor negotiations described above, and such benefits have been modified from time to time. Additionally, the Company has amended the benefits under postretirement benefit plans maintained for its management employees. Expectations with respect to certain future amendments to the Company's postretirement benefit plans have been reflected in determining the Company's postretirement benefit cost under Statement No. 106.

During 1990 and 1989, the cost of postretirement health benefits was $179.5 million and $221.3 million, respectively. In addition, the Company recognized postretirement life insurance benefit cost of $3.9 million in 1990 and $9.7 million in 1989.

Savings Plans and Employee Stock Ownership Plans

The Company has established savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis and encourage employees to acquire and maintain an equity interest in the Company. Under these plans, the Company matches a certain percentage of eligible employee contributions. In 1989, two leveraged employee stock ownership plans (ESOPs) were established and revisions were made to the existing employee savings plans, effective January 1, 1990, to require that the Company's matching contribution be invested in shares of the Company's common stock. The ESOPs are intended to take advantage of tax incentives and provide the opportunity for the Company to improve cash flow by allocating appreciated common stock from the ESOP trusts to satisfy a substantial portion of its matching obligation, with the remaining obligation satisfied through additional Company contributions. The amount of common stock available for allocation from the ESOP trusts is based on the proportion of principal and interest paid on ESOP debt in a year to the remaining principal and interest due over the term of the debt.

The ESOP trusts were initially funded by the issuance of $790.0 million in ESOP Senior Notes at an annual interest rate of 8.25%. The ESOP Senior Notes are payable in semiannual installments, which began on January 1, 1990 and end in the year 2000. The ESOP trusts will repay the notes, including interest, with funds from the Company's contributions to the ESOP trusts, as well as dividends received on unallocated shares of common stock, and interest earned on the cash balances of the ESOP trusts.

Total ESOP cost and trust activity consists of the following:

	Years Ended December 31,	
	1991	1990
	(Dollars in Millions)	
Compensation	$ 39.7	$ 28.9
Interest incurred	61.3	64.4
Dividends	(37.6)	(37.9)
Other trust earnings and expenses, net	(.1)	(.5)
Net leveraged ESOP cost	63.3	54.9
Additional ESOP cost	27.5	33.1
Total ESOP cost	$ 90.8	$ 88.0
Dividends received for debt service	$ 42.2	$ 52.8
Total company contributions to trusts	$ 92.2	$ 75.7

Due to the issuance of the ESOP Senior Notes and the purchase of shares of common stock prior to January 1, 1990, the Company incurred net leveraged ESOP cost of $6.3 million in 1989.

10. Income Taxes

The components of the provision for income taxes are as follows:

	Years Ended December 31,		
	1991	1990	1989
	(Dollars in Millions)		
Federal:			
Current	$588.1	$553.0	$306.7
Deferred, net	28.6	67.1	166.5
Investment tax credits	(68.0)	(71.5)	(77.1)
	548.7	548.6	396.1
State and Local:			
Current	124.5	95.6	76.2
Deferred, net	(8.4)	25.4	(1.3)
	116.1	121.0	74.9
Total	$664.8	$669.6	$471.0

The components of deferred income tax expense are as follows:

	Years Ended December 31,		
	1991	1990	1989
	(Dollars in Millions)		
Leveraged lease transactions	$ 82.0	$102.4	$ 99.9
Accelerated depreciation	43.0	97.5	124.1
Direct financing and operating lease transactions	(25.3)	22.3	26.5
Alternative Minimum Tax	33.6	(75.4)	—
Employee benefits	(72.5)	(55.7)	(13.7)
Write-down of assets	—	—	(29.7)
Other, net	(40.6)	1.4	(41.9)
Total	$ 20.2	$ 92.5	$165.2

The provision for income taxes varies from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes. The difference is attributable to the following factors:

	Years Ended December 31,		
	1991	1990	1989
Statutory federal income tax rate	34.0%	34.0%	34.0%
Investment tax credits	(2.9)	(3.2)	(4.7)
State income taxes, net of federal tax benefits	3.8	3.9	3.1
Benefit of rate differential applied to reversing timing differences	(3.2)	(3.5)	(4.4)
Reversal of previously capitalized taxes and payroll-related construction costs	1.4	1.9	3.0
Amortization of cost in excess of net assets acquired	—	—	1.8
Other, net	.2	.7	(2.3)
Effective income tax rate	33.3%	33.8%	30.5%

As a result of the adoption, effective January 1, 1988, of the revised Uniform System of Accounts (USOA) prescribed by the Federal Communications Commission, the telephone subsidiaries are required to provide deferred income taxes for interstate rate-making purposes on book/tax timing differences. Two of the telephone subsidiaries have not fully implemented this USOA change for intrastate rate-making purposes.

The cumulative net amount of income tax timing differences in the telephone subsidiaries for which deferred taxes have not been provided pursuant to the rate-making process was approximately $522 million and $611 million at December 31, 1991 and 1990, respectively. These timing differences principally relate to the allowance for funds used during construction and certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation. At December 31, 1991 and 1990, deferred state taxes have not been provided on an additional $1,999 million and $1,966 million, respectively, of income tax timing differences, principally related to accelerated tax depreciation.

The Company's 1990 current tax liability was determined under the Alternative Minimum Tax (AMT) rules, resulting in an AMT credit of $75.4 million, of which $33.6 million was utilized in 1991. At December 31, 1991, the Company had an AMT credit carryforward of $41.8 million that can be utilized in future years when regular tax liability exceeds AMT liability.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109) in February 1992. The Company will be required to adopt Statement No. 109 by 1993. Statement No. 109 will require the calculation of deferred taxes using the liability method. Under the liability method, deferred tax balances must be adjusted to reflect enacted changes in income tax rates, and deferred taxes must be provided on all book/tax basis differences. Since regulators have not changed the manner in which these tax effects are treated for rate-making purposes, when Statement No. 109 is adopted, the income effects of the required adjustments to deferred tax balances will be recorded on the balance sheet as regulatory assets or liabilities, in accordance with Statement No. 71. Absent changes in the regulatory treatment of deferred taxes, there will be no material impact on net income of the telephone subsidiaries upon adoption of Statement No. 109. The impact of adopting Statement No. 109 on net income of the unregulated subsidiaries will depend on the enacted tax rates and the book/tax basis differences on the date Statement No. 109 is adopted. Because of the ongoing requirement to adjust deferred tax balances to reflect enacted changes in income tax rates, and because such adjustments will affect net income for the unregulated subsidiaries, the Company's tax expense and net income may, depending on the frequency of income tax rate changes, be subject to increased volatility in the future.

Prior to 1984, the telephone subsidiaries were included in AT&T's consolidated federal income tax returns. These returns have been examined by the Internal Revenue Service (IRS) and all issues, including the summary assessment issue discussed below, have been settled.

During 1987, the IRS made a summary assessment requiring the telephone subsidiaries to pay a total of approximately $65 million in tax and interest related to certain contested issues for the years 1979 and 1980. This payment has been recorded as a current deferred charge. In January 1992, the Company was officially notified that the IRS has decided the issues as proposed by the Company, and a refund of the summary assessment is expected in 1992.

11. Supplemental Cash Flow and Additional Financial Information

	Years Ended December 31,		
	1991	1990	1989
	(Dollars in Millions)		
Supplemental Cash Flow Information:			
Interest paid	$826.9	$794.1	$726.1
Income taxes paid	$620.0	$587.3	$438.1
Noncash financing activity:			
Short-term debt outstanding in connection with investment in Telecom (see Note 13)	—	$184.4	—

	Years Ended December 31, 1991	1990	1989
	(Dollars in Millions)		
Additional Financial Information:			
Interest expense:			
Interest on long-term debt	$695.0	$651.8	$596.9
Interest on notes payable	115.4	132.0	97.9
Other	88.6	95.5	38.7
Total interest, including Financial Services	$899.0	$879.3	$733.5
Portion of total interest expense incurred by Financial Services and included in other operating expenses	$194.0	$219.6	$190.7

The telephone subsidiaries provide certain billing and collection services to interexchange carriers (IXCs). To provide these services, the telephone subsidiaries and the IXCs enter into contracts under which the telephone subsidiaries purchase the related customer accounts receivable. The largest purchaser of this service is AT&T. At December 31, 1991 and 1990, accounts receivable include $230.3 million and $262.5 million, respectively (net of allowances for uncollectibles of $41.2 million and $11.5 million), of such receivables purchased from AT&T. Accounts payable include corresponding amounts owed to AT&T for such receivables.

Included in operating expenses are amounts billed by Bell Communications Research, Inc. Such expenses for 1991, 1990, and 1989 were $158.4 million, $141.9 million, and $150.8 million, respectively, for various network planning, engineering, and software development projects.

The amounts of drafts outstanding included in accounts payable at December 31, 1991 and 1990 were $64.5 million and $72.1 million, respectively.

During 1991 and 1990, the Company received dividends from less-than-majority-owned businesses of $87.4 million and $56.2 million, respectively. The amount of these dividends was not material for 1989.

12. Contingencies

The Plan of Reorganization implementing the divestiture of Bell Atlantic Corporation from AT&T provides for the sharing of the cost of certain liabilities that are attributable to pre-divestiture events (including transactions to implement divestiture), but did not become certain until after divestiture. These contingent liabilities relate principally to litigation and other claims with respect to the former Bell System's rates, taxes, contracts, and torts, including business torts such as alleged violations of the antitrust laws. In addition, the Company is a party to antitrust actions and various claims, legal actions, and complaints arising in the ordinary course of business.

In the opinion of management, any monetary liability or financial impact to which Bell Atlantic Corporation and its subsidiaries might be subject after final adjudication or settlement of these matters would not be material to the Company's consolidated financial position.

13. Investment in Telecom Corporation of New Zealand Limited

In September 1990, the Company acquired a 50% ownership interest in Telecom Corporation of New Zealand Limited (Telecom), the principal provider of telecommunications services in that country. The cost of this investment was approximately $1.2 billion and was included in Investments in Affiliates in the Consolidated Balance Sheet. After a series of stock sales, which are expected to be completed within three years from the date of the initial acquisition, the Company's ownership position in Telecom will be reduced to a level not to exceed 24.95%. The Company's long-term investment in Telecom is accounted for using the equity method. The portion of the Company's investment that is expected to be sold within three years from the date of its acquisition was recorded at fair market value at the date of acquisition and on an ongoing basis is accounted for using the cost method. At the date of acquisition, the Company's 24.95% long-term interest exceeded the recorded value of the proportionate share of the underlying net assets by approximately $285 million. This amount is being amortized by the straight-line method over a period of 40 years.

In July 1991, the Company reduced its investment in Telecom to approximately 34% through an initial public offering of the shares of Telecom. The Company recorded an after-tax gain of $74.1 million as a result of this sale.

14. Acquisitions and Dispositions

In May 1991, the Company acquired, through a joint venture, an ownership position of approximately 12.5% in Sky Network Television Limited, a provider of subscription television services in New Zealand. The cost of this investment was $10.9 million.

During 1990 and 1989, the Company acquired several other businesses. The Company assumed $13.4 million of the acquired businesses' liabilities in 1990.

The results of operations of all acquired companies have been included in the consolidated financial statements since the respective dates of acquisition. Operations of the companies prior to the dates of acquisition are not material to the consolidated financial statements.

In July 1991, the Company transferred its computer maintenance business in Europe to a joint venture with an unaffiliated company. The investment in the joint venture is accounted for using the equity method. Also in July 1991, the Company sold a subsidiary company which specialized in key telephone and telecommunications systems leasing, sales, and service. During 1990, the Company sold a subsidiary company engaged in the leasing of midrange computers and the sale of new and used computer equipment. These transactions did not have a material effect on the Company's results of operations.

15. Financial Instruments

OFF-BALANCE-SHEET RISK

The Company enters into forward exchange contracts to offset the effects of foreign exchange fluctuations on exposed balances. At December 31, 1991, the outstanding face amounts of these contracts totaled 259.8 million New Zealand Dollars which will be exchanged for $142.5 million.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments, trade receivables, and various hedging instruments, principally foreign currency contracts.

The Company places its temporary cash investments with high-credit-quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables other than those under contract with AT&T (see Note 11) are limited due to the large number of customers included in the Company's customer base.

In management of its exposure to fluctuations in foreign currency exchange rates, the Company has entered into forward exchange contracts and options. During 1991, the Company entered into these contracts with various counterparties. The Company continually monitors its positions and the credit ratings of its counterparties, and limits the amount of contracts it enters into with any one party. While the Company may be exposed to credit losses in the event of nonperformance by its counterparties, it does not expect to incur such losses.

16. Merger Agreement

In September 1991, the Company entered into a merger agreement with Metro Mobile CTS, Inc. (Metro Mobile) providing for the acquisition of Metro Mobile by the Company. Metro Mobile owns, operates, and controls cellular telephone systems serving 18 markets located in the Southwest, Northeast, and Southeast United States and, in addition, is engaged in the sale and distribution of liquefied petroleum gas.

The transaction, which is expected to be accounted for as a pooling of interests, would involve the issuance of approximately 32 million to 36 million shares of the Company's common stock (depending upon the market price of the stock in a defined trading period prior to closing and on adjustments to be made at closing) in exchange for the outstanding common shares of Metro Mobile. The merger is subject to various